

# ***SOUTHWESTERN POWER ADMINISTRATION***

## **2002** **ANNUAL REPORT**



United States  
Department of Energy  
**SOUTHWESTERN  
POWER  
ADMINISTRATION**  
*Partners In Power*











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The Honorable Spencer Abraham  
Secretary of Energy  
Washington, D.C. 20585

***Dear Secretary Abraham:***

I am proud to submit the fiscal year (FY) 2002 Annual Report from Southwestern Power Administration (Southwestern). In reviewing the events and accomplishments of last year, I am pleased to report that Southwestern has once again exceeded my expectations.

We have made great strides in following the President's Management Agenda, incorporating it into our 2002 Strategic Plan to emphasize customer service, results-oriented business practices, and innovative approaches to solve everyday problems.

For example, we have taken the lead role in facilitating maintenance agreements between our customers and the Corps of Engineers. In FY 2002, over \$6 million worth of customer-funded, non-routine maintenance was scheduled for hydropower projects in Southwestern's marketing area. Partnerships such as these allow our customers to play an important role in keeping rates low, generation and transmission systems safe and reliable, and environmentally clean power abundant.

Moreover, since our customers and stakeholders are the emphasis of Southwestern's Strategic Plan, we continue to stay focused on their needs. Our customer surveys and participation in customer group meetings provide feedback that will prove invaluable in our continuous quest to better serve our customers' needs and improve our performance.







One performance goal we worked toward successfully this past year was achieving measurable results while keeping costs low. To support this goal, we consolidated staff and streamlined processes, so that we can more efficiently serve our customers and stakeholders.

Even though we are repaying the Government's investment in facilities in a timely manner, Southwestern continues to look for innovative ways to maximize the use of Federal assets to reduce costs. For example, our partnership with the Springfield, Missouri, Police Department provided increased security at reduced cost to Southwestern's Operations and Dispatch Center. More money was saved when Southwestern reduced the number of support services contractors on staff. And our innovative use of helicopters to trim trees in transmission line right-of-way areas has significantly reduced man-hours and costs associated with traditional side-trimming methods.

I am confident that creative thinking like this, combined with a committed and conscientious workforce, will keep Southwestern moving forward in the future. For our customers and for the nation, Southwestern remains dedicated to its support of the National Energy Policy and looks forward to a future of providing dependable, affordable, and environmentally sound hydroelectric power.

Sincerely,

Michael A. Deihl  
Administrator



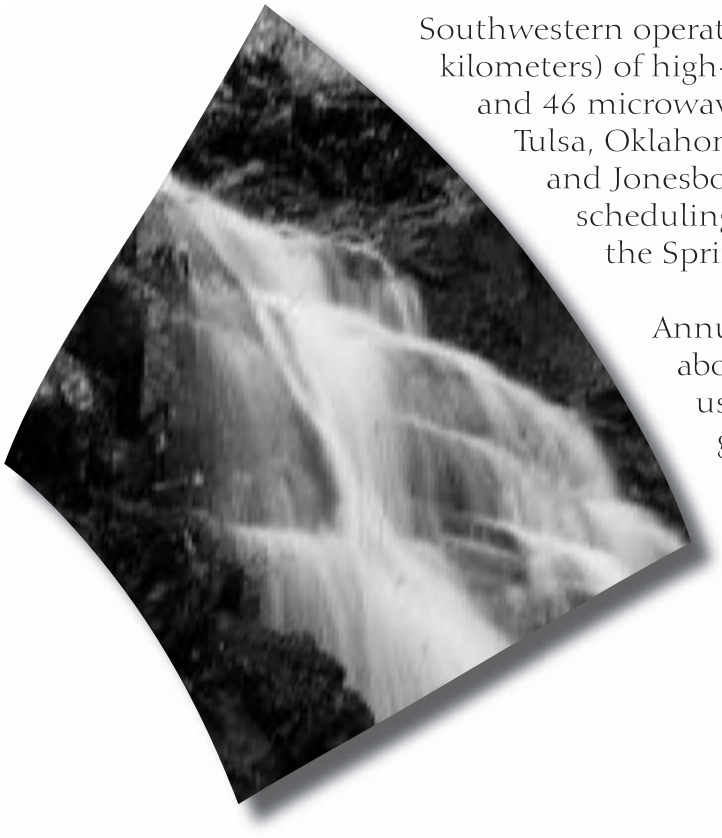
## ***About Southwestern***

Southwestern was established in 1943 by the Secretary of the Interior as a Federal agency that today operates under the requirements of Section 5 of the Flood Control Act of 1944. In 1977, Southwestern was transferred to the newly created Department of Energy (DOE). 2002 marked Southwestern's 25th anniversary with DOE.

As one of four Power Marketing Administrations in the United States, Southwestern operates in a six-state region to market the hydropower produced at 24 U.S. Army Corps of Engineers multipurpose dams. By law, Southwestern's power is marketed primarily to publicly held entities such as rural electric cooperatives and municipal utilities. Southwestern has over one hundred such "preference" customers, and these customers ultimately serve another seven million end-use customers.

Southwestern operates and maintains 1,380 miles (2,220 kilometers) of high-voltage transmission lines, 24 substations, and 46 microwave and VHF radio sites from offices in Tulsa, Oklahoma; Springfield, Missouri; Gore, Oklahoma; and Jonesboro, Arkansas. Around-the-clock power scheduling and dispatching are conducted by staff in the Springfield Operations Center.

Annual revenues for Southwestern average about \$115 million. These revenues are used to repay the cost of maintaining the generating and transmission facilities and to repay the principal and interest on the Federal investment.





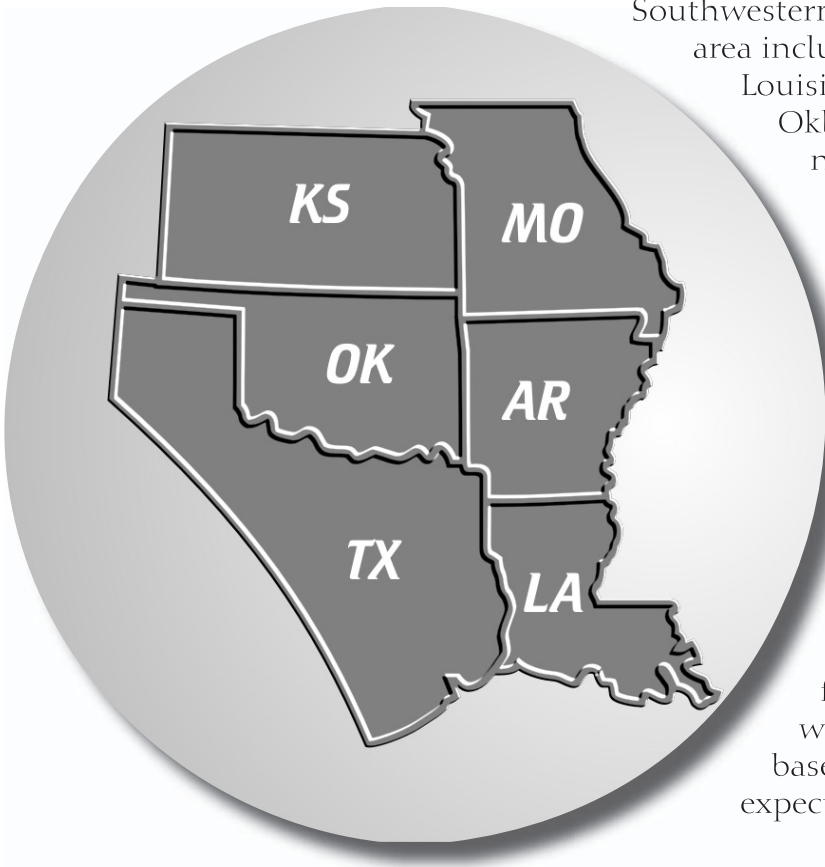
## ***Mission***

Southwestern Power Administration's mission is to market and reliably deliver Federal hydroelectric power with preference to public bodies and cooperatives. This is accomplished by maximizing the use of Federal assets to repay the Federal investment while balancing power needs with the diverse interests of other water resource users, and implementing public policy.



## ***Marketing Area***

Southwestern's six-state marketing area includes Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and northeast Texas.



## ***Vision***

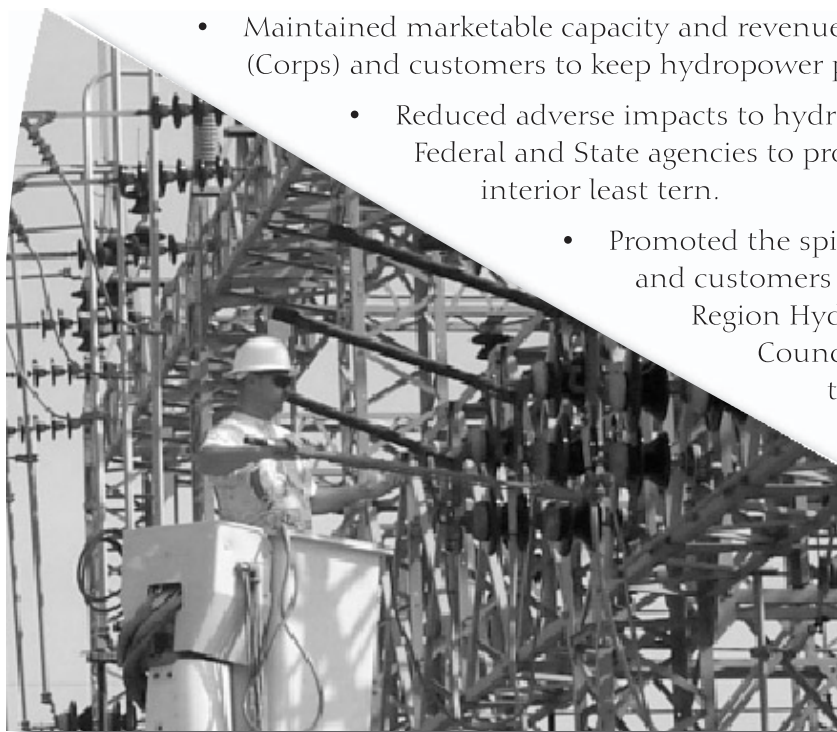
Southwestern has an open and trusting partnership with its customers in meeting their business expectations for operation of the Federal hydropower system and with the American public in meeting its financial obligations. The Southwestern work force is cost-conscious, team-based, and empowered to meet customer expectations.



# Significant Accomplishments

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## ***Marketing Power and Maintaining Relationships***



- Maintained marketable capacity and revenues by working with the Corps of Engineers (Corps) and customers to keep hydropower projects operational.
- Reduced adverse impacts to hydropower generation while working with Federal and State agencies to protect the endangered population of the interior least tern.
- Promoted the spirit of cooperation between the Corps and customers by participating in two Southwestern Region Hydropower Conference and Hydropower Council meetings. These meetings were held to prioritize customer funding of 24 non-routine maintenance items at Corps projects, which saved over \$6 million in appropriated funding.
- Developed a draft Memorandum of Agreement with the Corps to implement direct funding of the Corps' operation and maintenance costs from Southwestern's revenues if proposed authorization legislation is passed.

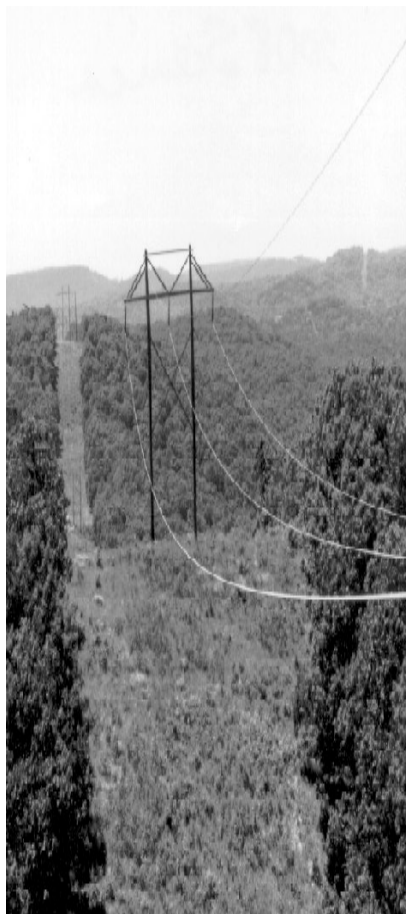
## ***Maximizing Assets While Improving Performance***

- Incorporated the President's Management Agenda and National Energy Policy into Southwestern's Strategic Plan to emphasize the importance of performance-based operations.
- Achieved a superior rating on customer survey for accomplishing the mission and addressing significant changes in the electric utility industry.
- Saved over \$200 thousand in annual security costs by partnering with the Springfield, Missouri, Police Department in an agreement that resulted in increased security at reduced cost.
- Received an unqualified opinion on annual Financial Audit, which indicates that the Financial Statements fairly present the financial position of the agency.
- Initiated the use of helicopters to perform side-clearing on right-of-way areas for a 50% savings over traditional side-clearing methods. This aerial side-clearing method also proved five to ten times faster than traditional methods.
- Realized considerable savings while supporting small business through the implementation of a contract for support services from Wyandotte Net Tel, a Native American owned small business.



# Significant Accomplishments

## Achieving Reliability, Security, and Open Access



- Relieved transmission constraints by performing non-Federal reimbursable work on new interconnections.
- Partnered with customers to fund clearing along the transmission system right-of-way, which saved over \$600 thousand in appropriated funding while reducing the threat of outages caused by overgrown trees.
- Participated in Southwest Power Pool's planning efforts to coordinate recovery from region-wide power outages.
- Protected assets and critical data by significantly strengthening physical and cyber security.
- Achieved the sixth consecutive year of error free switching performance by meeting the North American Electric Reliability Council (NERC) generator control requirements, and by providing twenty-four hour coverage with NERC Certified Power System Dispatchers.
- Assisted the Corps in ensuring that the generation and transmission systems remain dependable and safe by replacing obsolete circuit breakers at the Eufaula and Keystone projects.
- Increased functionality and reliability of the Supervisory Control and Data Acquisition (SCADA) system, used to monitor and control the generation, scheduling, and transmission of power, through an upgrade of hardware and software.
- Hosted a Safety, Health, and Environmental Conference for the Power Marketing Administrations and the Tennessee Valley Authority.



- Honored with the Department of Energy Aviation Program Safety Award for outstanding safety in the use of aircraft in service to the Department.
- Improved reliability of the communications, generation, and transmission systems by installing fiber optic cable. The work also included structural improvements to over 100 miles of 161-kV transmission line.
- Continued to increase preparedness for coping with disastrous or unforeseen circumstances by reviewing and updating business continuity, emergency management, and security plans.



## Five Year Statistical Summary

	2002	2001	2000	1999	1998
<b>Funds Available for Repayment</b>					
Annual gross billings	\$105,270,969	\$110,370,637	\$101,894,446	\$115,760,796	\$113,347,438
Annual expenditures	(84,725,761)	(87,932,486)	(89,415,265)	(89,348,343)	(80,642,373)
Net billings available for repayment	20,545,208	22,438,151	12,479,181	26,412,453	32,705,065
Retirement losses	(1,809,747)	(2,545,733)	(5,698,984)	(660,702)	(2,763,751)
Cost allocation adjustment	20,589,891	-	-	-	-
Amount available for repayment	<u>\$39,325,352</u>	<u>\$19,892,418</u>	<u>\$6,780,197</u>	<u>\$25,751,751</u>	<u>\$29,941,314</u>

## Repayable Investment

Generation	\$914,809,197	\$934,833,241	\$933,540,170	\$903,139,782	\$894,269,085
Transmission	207,490,106	201,755,454	191,105,812	181,873,605	181,302,928
Total repayable investment in completed plant	<u>\$1,122,299,303</u>	<u>\$1,136,588,695</u>	<u>\$1,124,645,982</u>	<u>\$1,085,013,387</u>	<u>\$1,075,572,013</u>

## System Statistics

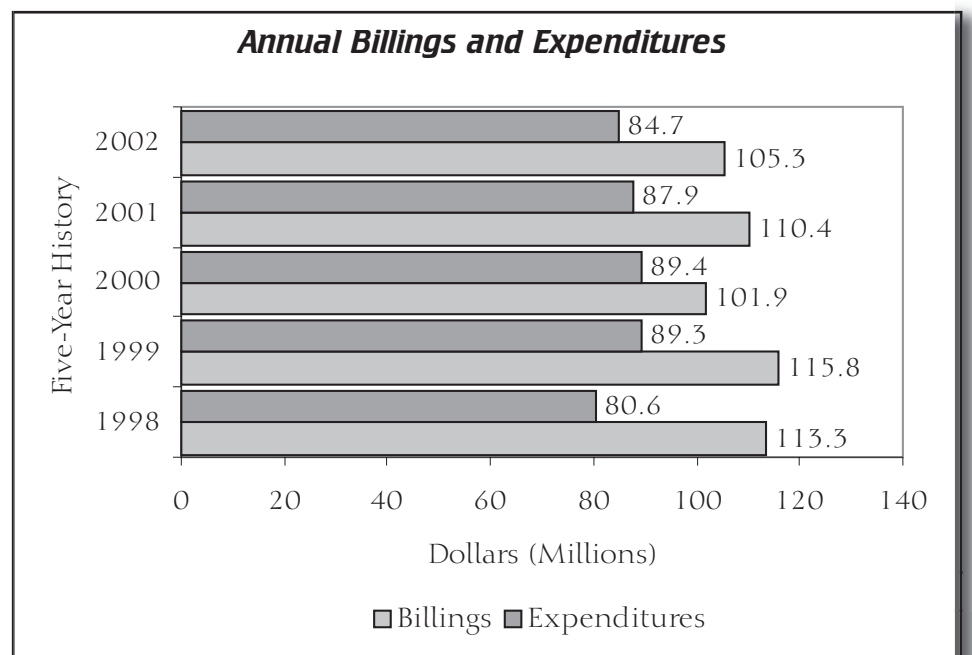
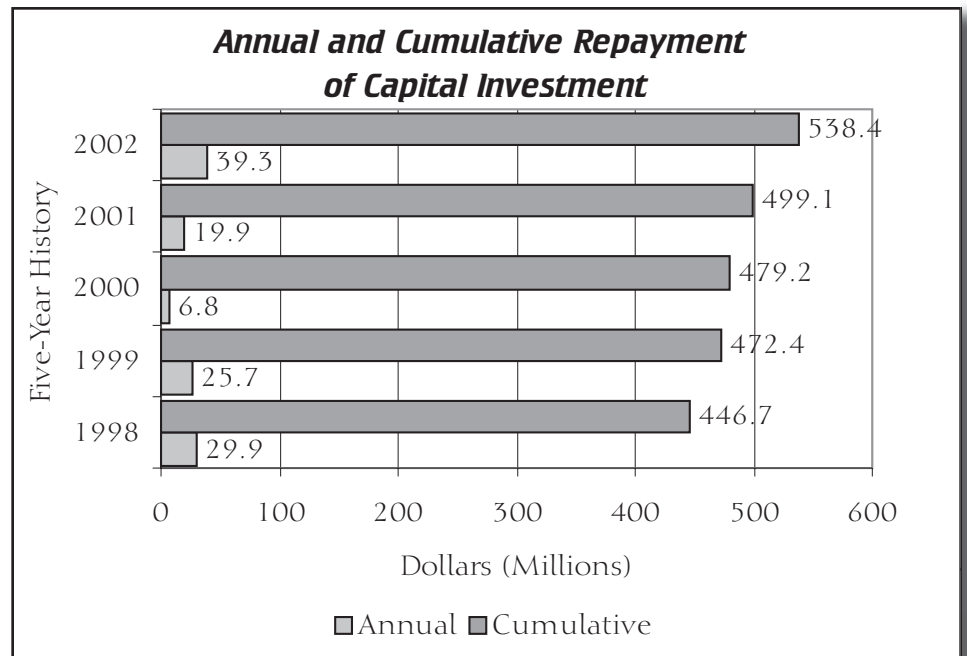
Total number of plants (hydro projects)	24	24	24	24	24
Miles of transmission line	1,380	1,380	1,380	1,380	1,380
Kilometers of transmission line	2,220	2,220	2,220	2,220	2,220
Generating capacity (MW)	2,158	2,158	2,158	2,158	2,158
Cost of generating plant investment per kW	\$424	\$433	\$433	\$418	\$414
Number of customers	103	103	104	93	101
Number of full-time equivalent (FTE)	173	178	174	170	174

## Financial Performance Indicators - Southwestern Federal Power System

Debt Service Coverage Ratio	0.903	0.991	0.658	1.064	1.200
Cumulative Principal Payments as a % of Total Federal Investment	47.98%	43.91%	42.53%	43.54%	41.53%
% Variance of Actual from Planned in Net Available for Repayment	-13.90%	-12.84%	-76.05%	9.07%	23.20%
Net Cash Flow to the Treasury (\$000)	\$14,459	\$4,309	\$11,321	\$15,410	\$20,404

This page contains unaudited supplementary data which may differ from FY 2002 financial results due to the actualization of estimates.





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## Source and Distribution of Energy

<b>Where It Came From</b>	<b>Millions kWh</b>	<b>%</b>
Direct Purchase	8.7	0.2
Interchange	138.5	2.4
Losses Purchases	96.3	1.7
Generated by Hydroelectric Plants of the U.S. Army Corps of Engineers	<u>5,475.2</u>	<u>95.7</u>
Total	<u>5,718.7</u>	<u>100.0</u>

<b>Where It Went</b>		
Losses	173.1	3.0
Interchange	157.8	2.8
Contract Exchange	83.0	1.4
Cooperatives	3,614.7	63.2
Municipalities	1,571.0	27.5
Government Agencies	118.6	2.1
Utility Companies / Other	<u>0.5</u>	<u>0.0</u>
Total	<u>5,718.7</u>	<u>100.0</u>



## Source and Distribution of Billings

<b>Where It Came From</b>	<b>Thousands</b>	<b>%</b>
Miscellaneous	\$13,369	12.7
Deferred	(5,547)	-5.3
SPP Reserve Sharing Companies	16	0.0
Government Agencies	2,093	2.0
Municipalities	28,585	27.2
Cooperatives	63,865	60.7
Banking Exchange	<u>2,890</u>	<u>2.7</u>
Total	<u>\$105,271</u>	<u>100.0</u>

<b>Where It Went</b>		
Available For Repayment	\$39,325	37.4
Interest Expense	1,250	1.2
Purchased Power & Bank Exchange	4,515	4.3
Transmission Service Charge	3,104	2.9
Operations, Maintenance, & Other <sup>1</sup>	<u>57,077</u>	<u>54.2</u>
Total	<u>\$105,271</u>	<u>100.0</u>

<sup>1</sup> Includes losses on retirement of assets booked through depreciation reserve.

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## Cumulative Repayment Status

	<b>Robert D. Willis</b>	<b>Sam Rayburn</b>	<b>Integrated System</b>	<b>Total SWFPS</b>
Billings	<u>\$4,205,772</u>	<u>\$55,588,795</u>	<u>\$2,969,372,967</u>	<u>\$3,029,167,534</u>
Expenditures				
Operations and Maintenance	4,083,675	24,335,387	1,149,618,994	1,178,038,056
Purchased power and service charge			629,937,945	629,937,945
Interest	<u>(162,465)</u>	<u>16,446,058</u>	<u>666,479,263</u>	<u>682,762,856</u>
Total expenses	3,921,210	40,781,445	2,446,036,202	2,490,738,857
Billings applied to amortization				
(Cumulative amortization)	<u>284,562</u>	<u>14,807,350</u>	<u>523,336,765</u>	<u>538,428,677</u>
Total unpaid investment	<u>\$(265,612)</u>	<u>\$11,414,180</u>	<u>\$572,722,058</u>	<u>\$583,870,626</u>

## Federal Investment in Generating and Transmission Facilities in Service

	<b>2002</b>	<b>2001</b>
Generating facilities	\$968,873,402	\$988,879,364
Transmission facilities	<u>207,490,106</u>	<u>201,755,454</u>
Total Investment	<u>1,176,363,508</u>	<u>1,190,634,818</u>
Adjustments:		
Retirement work-in-progress	-	-
Truman adjustment <sup>1</sup>	(33,846,456)	(33,828,374)
Dam Safety adjustment <sup>2</sup>	<u>(20,217,749)</u>	<u>(20,217,749)</u>
Total repayable investment	<u>\$1,122,299,303</u>	<u>\$1,136,588,695</u>

<sup>1</sup> Adjustment reflecting Harry S Truman's limited operating conditions and interim cost allocation.

<sup>2</sup> Dam Safety work not repayable per Public Law 99-662: Beaver \$20,217,749



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## Detail of Billings to Customers

<b>Customers</b>	<b>Capacity kW</b>	<b>Energy Delivered kWh</b>	<b>Billings for Power Sales</b>
<b>COOPERATIVES</b>			
Arkansas Electric Cooperative Corporation	189,000	488,109,000	\$8,678,847
Associated Electric Cooperative, Inc.	478,000	1,268,262,000	22,197,359
Beauregard Electric Cooperative, Inc.	7,900	20,852,631	365,711
Brazos Electric Power Cooperative, Inc.	35,200	42,528,000	1,300,425
Claiborne Electric Cooperative, Inc.	4,900	12,933,910	226,834
Concordia Electric Cooperative, Inc.	4,300	11,350,163	199,058
Dixie Electric Membership Corporation	16,300	43,025,043	754,568
Jefferson Davis Electric Cooperative, Inc.	3,600	9,502,466	166,653
Kansas Electric Power Cooperative	100,000	268,752,000	4,644,135
Kaw Valley Electric Cooperative	1,000	2,560,000	45,845
Nemaha-Marshall Electric Cooperative Association	1,000	2,550,000	48,175
Northeast Louisiana Power Cooperative, Inc.	4,100	10,822,250	189,799
Northeast Texas Electric Cooperative, Inc.	127,500	301,808,000	5,652,644
Pointe Coupee Electric Membership Corporation	2,700	7,126,847	124,990
Rayburn Country Electric Cooperative, Inc.	44,100	121,618,486	1,943,793
Sam Rayburn Dam Electric Cooperative, Inc.	52,000	146,927,000	2,077,632
South Louisiana Electric Cooperative Association	8,000	21,116,585	370,340
Southwest Louisiana Electric Membership Corporation	22,400	59,126,444	1,036,953
Tex-La Electric Cooperative Of Texas, Inc.	28,200	77,720,514	1,240,554
Valley Electric Membership Corporation	9,400	24,811,988	435,150
Washington-St. Tammany Electric Cooperative	7,800	20,588,673	361,082
Western Farmers Electric Cooperative	260,000	652,655,000	11,804,323
Total Cooperatives (22)	1,407,400	3,614,747,000	\$63,864,870
<b>GOVERNMENT AGENCIES</b>			
Department Of The Army, Fort Sill, Oklahoma	36,700	96,138,832	\$1,693,969
Army Ammunition Plant, McAlester, Oklahoma	2,688	7,041,448	124,070
Vance Air Force Base, Enid, Oklahoma	6,600	15,445,495	275,167
Total Government Agencies (3)	45,988	118,625,775	\$2,093,206
<b>SPP RESERVE SHARING COMPANIES</b>			
	0	463,000	\$16,164
Total SPP Reserve Sharing Companies (16)	0	463,000	\$16,164



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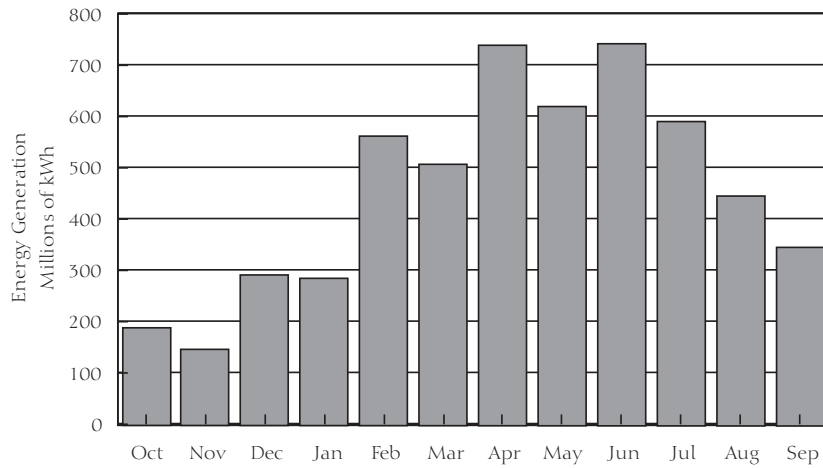
## Detail of Billings to Customers (continued)

<b>Customers</b>	<b>Capacity kW</b>	<b>Energy Delivered kWh</b>	<b>Billings for Power Sales</b>
MUNICIPALITIES			
Anthony, Kansas	300	765,000	\$13,733
Augusta, Arkansas	3,700	9,434,000	169,363
Bentonville, Arkansas	18,000	46,706,000	827,814
Carthage, Missouri	7,000	17,848,000	344,777
Clarksville, Arkansas	19,100	47,932,000	866,731
Coffeyville, Kansas	1,900	4,854,000	87,036
Comanche, Oklahoma	4,200	11,268,758	195,059
Copan, Oklahoma	2,500	6,707,591	116,106
Duncan, Oklahoma	32,500	87,198,712	1,509,384
Eldorado, Oklahoma	1,300	3,487,949	60,375
Fulton, Missouri	3,000	7,587,000	136,887
Goltry, Oklahoma	900	2,414,732	41,798
Granite, Oklahoma	2,300	6,170,985	106,818
Hermann, Missouri	5,800	14,789,000	265,485
Higginsville, Missouri	3,000	7,650,000	137,326
Hominy, Oklahoma	10,000	26,830,374	464,426
Jonesboro, Arkansas	80,000	204,000,000	3,700,416
Kansas City, Kansas	38,600	110,965,000	1,841,708
Kansas Municipal Energy Agency (Serves 24 Municipalities)	11,200	28,706,000	513,706
Kennett, Missouri	11,000	28,450,000	544,607
Lafayette, Louisiana	18,000	34,946,530	794,144
Lamar, Missouri	12,000	30,873,000	551,209
Lexington, Oklahoma	4,100	11,000,454	190,415
Louisiana Energy & Power Authority (Serves 9 Municipalities)	29,000	72,619,000	1,320,080
Malden, Missouri	5,000	12,750,000	246,276
Manitou, Oklahoma	600	1,609,821	27,865
Minden, Louisiana	2,400	6,117,000	109,839
Natchitoches, Louisiana	2,500	6,651,076	116,377
New Madrid, Missouri	4,500	11,189,000	217,480
Nixa, Missouri	5,300	14,332,000	265,324
Olustee, Oklahoma	700	1,878,126	32,510
Paragould, Arkansas	50,500	132,590,000	2,514,095
Paris, Arkansas	10,800	27,801,892	495,300
Piggott, Arkansas	4,900	12,494,000	241,346
Poplar Bluff, Missouri	39,500	102,894,000	1,960,768
Purcell, Oklahoma	14,500	37,326,613	664,987
Ryan, Oklahoma	1,900	5,097,773	88,241
Sam Rayburn Municipal Power Agency	7,350	32,617,760	353,700
Sikeston, Missouri	33,800	89,399,000	1,963,397
Skiatook, Oklahoma	11,000	28,655,000	506,431
Spiro, Oklahoma	4,000	10,732,150	185,770
Springfield, Missouri	50,000	135,202,000	2,353,030
Thayer, Missouri	2,800	7,219,000	128,721
Walters, Oklahoma	6,400	17,171,438	297,232
West Plains, Missouri	15,000	37,208,000	724,338
Wetumka, Oklahoma	2,600	6,975,898	120,751
Yale, Oklahoma	3,700	9,927,239	171,837
Total Municipalities (78)	599,150	1,571,042,871	\$28,585,018
Total Billings of Electric Power and Energy (103)	<u>2,052,538</u>	<u>5,304,878,646</u>	<u>\$94,559,258</u>

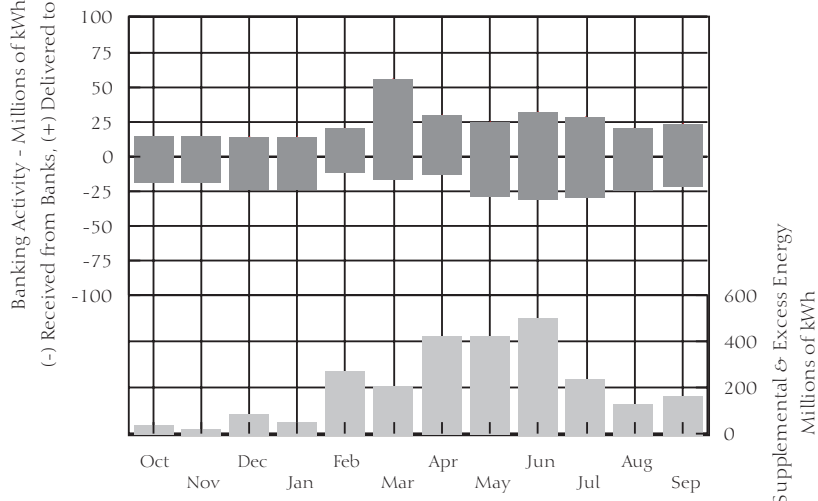
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**FY 2002 Energy Generation**

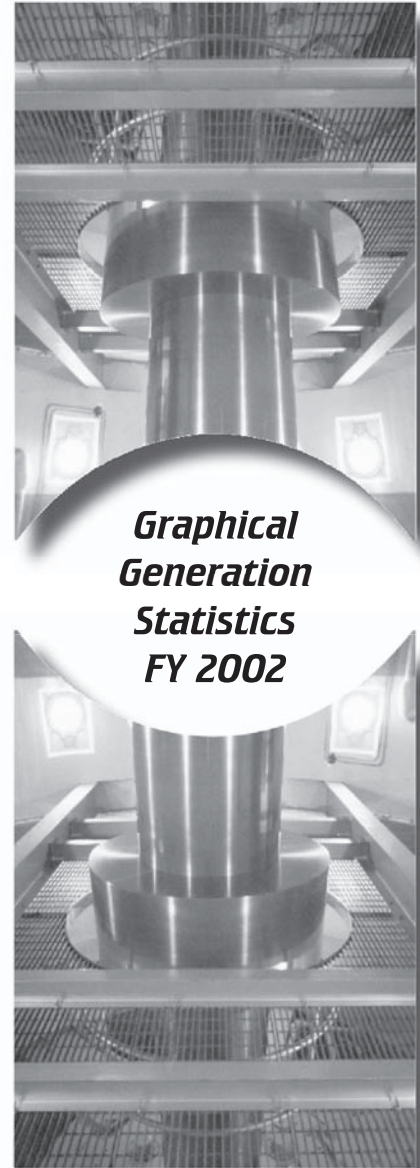
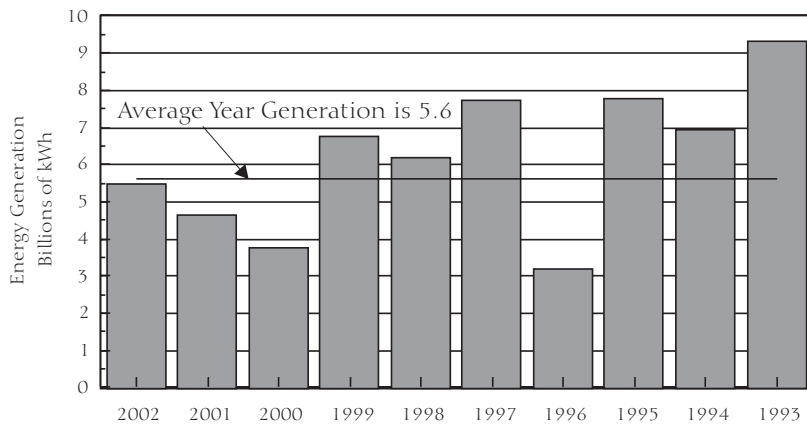


**FY 2002 Discretionary Energy Distribution and Banking Activity**



**Historical Hydroelectric Energy Generation**

24 Projects

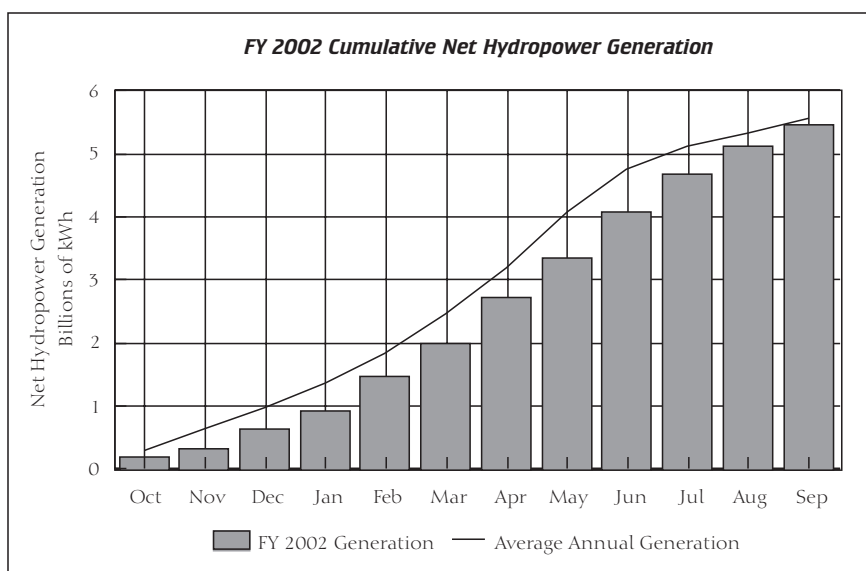


**Graphical  
Generation  
Statistics  
FY 2002**



# Power & Financial Data Summary - Southwestern Federal Power System - September 30, 2002

<b>Project</b>	<b>FY On-line Date</b>	<b>Installed Capacity kW</b>	<b>Estimated Average Annual Energy (million kWh)</b>	<b>Net Energy Production (million kWh)</b>	<b>Cost Assigned To Power <sup>1</sup></b>	<b>Total Project Cost <sup>1</sup></b>	<b>% Cost Assigned To Power</b>
Beaver	1965	112,000	172	149	\$60,369,641	\$89,002,025	67.8
Blakely Mountain	1956	75,000	169	215	27,945,880	44,236,751	63.2
Broken Bow	1970	100,000	129	201	25,858,817	47,653,112	54.3
Bull Shoals	1953	340,000	785	866	73,503,954	111,793,593	65.7
Clarence Cannon	1985	58,000	90	89	84,672,402	381,300,346	22.2
Dardanelle	1965	148,000	613	625	77,909,130	128,998,221	60.4
De Gray	1972	68,000	97	91	23,827,834	78,465,877	30.4
Denison	1945	70,000	219	193	25,137,988	79,096,121	31.8
Eufaula	1965	90,000	260	202	38,811,430	141,582,928	27.4
Fort Gibson	1953	45,000	191	172	18,951,816	51,956,121	36.5
Greers Ferry	1964	96,000	189	199	37,066,882	58,441,461	63.4
Harry S Truman	1982	160,000 <sup>2</sup>	244	219	163,371,151	629,631,586	25.9
Keystone	1968	70,000	228	167	29,323,100	135,257,353	21.7
Narrows	1950	25,500	30	36	8,450,894	21,356,415	39.6
Norfolk	1944	80,550	184	245	23,348,771	78,368,568	29.8
Ozark	1973	100,000	429	178	47,189,044	104,809,739	45.0
Robert D Willis	1989	7,350	37	33	18,950 <sup>3</sup>	9,487,194	0.2
Robert S Kerr	1971	110,000	459	488	46,682,123	109,521,863	42.6
Sam Rayburn	1966	52,000	114	147	26,230,638	112,915,216	23.2
Stockton	1973	45,200	55	56	27,190,653	89,115,886	30.5
Table Rock	1959	200,000	495	566	70,830,024	146,518,019	48.3
Tenkiller	1954	39,100	95	122	13,814,085	51,986,755	34.7
Webbers Falls	1974	60,000	213	186	35,474,810	102,109,232	34.7
Whitney	1955	30,000	73	30	13,148,074	55,884,254	23.5
<b>Total</b>		<u>2,181,700</u>	<u>5,570</u>	<u>5,475</u>	<u>\$999,128,091</u>	<u>\$2,859,488,634</u>	Avg. 34.9%



<sup>1</sup> Includes construction work in progress with plant in service less contributions in aid of construction.

<sup>2</sup> Only 53,300 kW have been declared in commercial operation.

<sup>3</sup> The initial project construction costs for power were non-federally funded.

*This page contains unaudited supplementary data which may differ from FY 2002 financial results due to the actualization of estimates.*



# ***FY 2002 Year in Review***

## ***Cooperating to Accomplish the Mission***

Although the primary emphasis in FY 2002 was an increased awareness of security, Southwestern continued to focus on the mission of marketing and delivering Federal hydropower with preference to public bodies while maintaining a reliable and accessible transmission system. As in the past, Southwestern found that cooperation is often the key to accomplishing this mission. Many projects were initiated and completed with the assistance of customers, the Corps, and various public entities. Southwestern wishes to acknowledge their help and to reconfirm its commitment to working together in the future.

## ***Emphasizing Security***

Both physical and cyber security were tightened in FY 2002. The Springfield Operations Center welcomed the increased security provided by having the Traffic Division of the Springfield, Missouri, Police Department on site. Southwestern also began work on a Crime Tips Rewards program to deter attacks on property and transmission equipment. In response to the increased threat of disastrous or unforeseen circumstances, Southwestern reviewed and updated business continuity and emergency management plans, and made the protection of employees and property its top priority. Southwestern also expedited improvements to its cyber security in FY 2002. The cyber and physical security plans were strengthened after review by senior management and security experts within DOE. In addition, all Southwestern employees were trained in cyber-security awareness and cyber-defense.

## ***Increasing Reliability and Serving Load Growth***

As the end of the year approached, Southwestern found itself negotiating interconnection agreements to better serve the load growth of its customers. Work continued on the modification of its Clarksville Substation to accommodate an interconnection with Oklahoma Gas & Electric. Additionally, five new interconnection agreements emerged for completion in FY 2003, pending Southwestern's receipt of adequate non-Federal reimbursable authority to accept funding from the requesting parties. These efforts, along with Southwestern's ongoing work in replacing circuit breakers, disconnect switches, and protective relays, will increase the reliability of the transmission system, relieve constraints, and add to the overall strength of the nation's energy infrastructure, as is directed in the National Energy Policy.





# ***FY 2002 Year in Review***

## ***Balancing Water Uses***

Southwestern spent the spring and summer of FY 2002 working with the Corps, the U.S. Fish and Wildlife Service, the Oklahoma Municipal Power Authority, and the Oklahoma Department of Wildlife Conservation to develop management guidelines for the protection of the endangered population of the interior least tern. By early fall, it appeared that the hard work had paid off. The number of fledglings reported on the lower Arkansas River had increased from the number observed in the previous year, while adverse effects on hydropower had decreased. Southwestern remains committed to working with the Corps and other government agencies to protect endangered species while preserving the benefits of hydropower and other water uses.

## ***Working Together to Maintain Capacity***

During FY 2002, Southwestern continued to foster the spirit of cooperation among customers and the Corps so that marketable capacity and revenues could be maintained. Continuing its work under the 1999 Memorandum of Agreement with the Corps and the City of Jonesboro, Arkansas, Southwestern facilitated additional agreements between the Corps and its customers to keep generating facilities in working order. Over \$6 million in non-routine maintenance was scheduled for hydropower facilities within Southwestern's marketing area in FY 2002. Southwestern also helped when circumstances forced the loss of generating capacity during the year. In May, when the Corps had to stop generating at the Ozark project because of the lack of adequate emergency bulkhead gates, Southwestern facilitated the loan of a bulkhead gate from the Tulsa District to the Little Rock District to restore generation. Southwestern also helped by expediting processing on an agreement to fund the replacement of a failed transformer at the Table Rock project in June. This kind of cooperation is a major factor in allowing Southwestern to continue to provide inexpensive, reliable power to its customers.

## ***Partnering with Small Business***

Southwestern was a winner in FY 2002 when it came to helping out small and disadvantaged business owners. During DOE's Third Annual Small Business Conference in Orlando, Florida in May, Southwestern was recognized for its outstanding achievement in the placement of prime contract awards to 8(a) Small Business Concerns for the previous fiscal year. And Southwestern showed additional support for 8(a) businesses when it signed a support services contract in June with Wyandotte Net Tel, an Oklahoma-based company that is wholly owned by the Wyandotte Indian Tribe.





## ***Independent Auditors' Report***

The Administrator of Southwestern Power Administration U.S. Department of Energy:

We have audited the accompanying combined statements of assets, Federal investment, and liabilities of the Southwestern Federal Power System (SWFPS) as of September 30, 2002 and 2001, and the related combined statements of revenues, expenses, and accumulated net revenues, and cash flows for the years then ended. These combined financial statements are the responsibility of SWFPS' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statements contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, Audit Requirements for Federal Financial Statements, as applicable to this entity. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the SWFPS as of September 30, 2002 and 2001, and the results of its operations and changes in accumulated net revenues, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information presented in management's Overview and Performance Measurements is not a required part of the combined financial statements, but is supplementary information required by OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information in the Overview and Performance Measurements sections, and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements referred to in the first paragraph of this report, taken as a whole. The accompanying combining information is presented for purposes of additional analysis and is not a required part of the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued reports dated January 10, 2003, on our consideration of the SWFPS's internal control over financial reporting and on its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

January 10, 2003

**KPMG LLP**



# SOUTHWESTERN FEDERAL POWER SYSTEM

## Combined Statements of Assets, Federal Investment, and Liabilities

September 30, 2002 and 2001

Assets	2002	2001
Utility plant:		
Plant in service	\$ 1,176,344,558	1,190,621,209
Accumulated depreciation	(432,679,340)	(416,203,953)
Construction and retirement work in progress	93,279,390	67,089,050
Net utility plant	836,944,608	841,506,306
Current assets:		
Unexpended appropriations	37,184,420	32,514,409
Accounts receivable	11,756,140	13,085,592
Materials and supplies, at average cost	6,382,167	6,436,036
	55,322,727	52,036,037
Purchase power and banking exchange receivable	-	4,144,119
Deferred workers' compensation	10,996,126	9,493,057
Other assets	2,398,347	1,490,733
Total assets	\$ 905,661,808	908,670,252
<b>Federal Investment and Liabilities</b>		
Federal investment:		
Congressional appropriations	\$ 2,505,552,054	2,447,355,123
Interest on Federal investment	767,702,163	761,693,347
Transfers from other Federal agencies	38,603,639	35,952,688
Gross Federal investment	3,311,857,856	3,245,001,158
Funds returned to U.S. Treasury	(2,536,526,491)	(2,443,818,310)
Investment of U.S. Government	775,331,365	801,182,848
Accumulated net revenues	104,964,548	82,899,372
Total Federal investment	880,295,913	884,082,220
Current liabilities - accounts payable and accrued liabilities	11,742,776	14,602,897
Accrued workers' compensation	11,161,813	9,572,435
Purchase power and banking exchange deferral	453,550	-
Hydropower revenue deferral	433,335	412,700
Advances for construction	1,574,421	-
Commitments and contingencies (Notes 3, 5 and 6)	-	-
Total liabilities	25,365,895	24,588,032
Total Federal investment and liabilities	\$ 905,661,808	908,670,252

The accompanying notes are an integral part of these power system combined financial statements.



# SOUTHWESTERN FEDERAL POWER SYSTEM

## Combined Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Sales of electric power:		
Cooperatives	\$ 63,449,622	59,952,447
Municipalities	28,295,266	27,213,482
Federal and state agencies	2,062,404	1,935,890
Banking exchange	2,893,492	4,725,731
Transmission service charges for others	12,464,398	11,146,615
Other operating income	1,004,366	1,024,262
Total operating revenues before deferrals	110,169,548	105,998,427
Net purchase power credit and banking exchange	(5,683,081)	4,372,210
Total operating revenues	104,486,467	110,370,637
Operating expenses:		
Operation and maintenance	49,862,471	47,697,976
Purchase power and banking exchange	4,515,350	14,260,986
Depreciation	18,285,134	23,957,033
Transmission service charges by others	3,103,466	2,392,574
Benefit expense	5,404,475	4,808,120
Total operating expenses	81,170,896	93,116,689
Net operating revenues	23,315,571	17,253,948
Interest on Federal investment	5,907,857	21,612,862
Allowance for funds used during construction (AFUDC)	(4,657,462)	(2,840,032)
Net interest expense	1,250,395	18,772,830
Net revenues (deficit)	22,065,176	(1,518,882)
Accumulated net revenues:		
Balance, beginning of year	82,899,372	84,418,254
Balance, end of year	\$ <u>104,964,548</u>	<u>82,899,372</u>

The accompanying notes are an integral part of these power system combined financial statements.



# SOUTHWESTERN FEDERAL POWER SYSTEM

## Combined Statements of Cash Flows

September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net revenues (deficit)	\$ 22,065,176	(1,518,882)
Adjustments to reconcile net revenues (deficit) to net cash provided by operating activities:		
Final allocation of Corps project costs	(24,285,871)	-
Depreciation	21,981,114	23,957,033
Benefit expense paid by other Federal Agencies	2,796,007	2,665,925
Interest on Federal investment	22,175,858	21,612,862
Allowance for funds used during construction	(4,657,462)	(2,840,032)
(Increase) decrease in assets:		
Accounts receivable	1,329,452	(406,808)
Materials and supplies	53,869	370,263
Purchase power and banking exchange receivable	4,144,119	(1,024,711)
Deferred workers' compensation	(1,503,069)	6,286,980
Other assets	(907,614)	(986,015)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(2,860,121)	4,169,476
Accrued workers' compensation	1,589,378	(6,512,122)
Purchase power and banking exchange deferral	554,508	(1,735,814)
Hydropower revenue deferral	20,635	19,653
Advances for construction	1,574,421	-
Net cash provided by operating activities	<u>44,070,400</u>	<u>44,057,808</u>
Cash flows from investing activities -		
Additions to utility plant	<u>(34,053,069)</u>	<u>(35,508,915)</u>
Cash flows from capital financing activities:		
Congressional appropriations	87,360,861	89,629,380
Funds returned to U.S. Treasury	<u>(92,708,181)</u>	<u>(84,625,375)</u>
Net cash provided by (used in) capital financing activities	<u>(5,347,320)</u>	<u>5,004,005</u>
Net increase in cash	4,670,011	13,552,898
Cash at beginning of year	<u>32,514,409</u>	<u>18,961,511</u>
Cash at end of year	<u>\$ 37,184,420</u>	<u>32,514,409</u>
Noncash transactions -		
Transfer of plant in service from (to) other Federal agencies	<u>\$ (145,056)</u>	<u>169,511</u>

The accompanying notes are an integral part of these power system combined financial statements.



# ***SOUTHWESTERN FEDERAL POWER SYSTEM***

## ***Notes to Combined Financial Statements September 30, 2002 and 2001***

### (1) Summary of Significant Accounting Policies

#### (a) General Information and Basis of Preparation of Financial Statements

The accompanying combined financial statements of the Southwestern Federal Power System (SWFPS) include the accounts of the Southwestern Power Administration (Southwestern), a unit of the U.S. Department of Energy (DOE), and the accounts of the Southwestern marketed hydroelectric generating plants and power operations of the U.S. Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense (DOD). Southwestern and the Corps are separately managed and financed and each maintains its own accounting records. For purposes of financial and operational reporting, the facilities and related operations are considered one entity.

The Corps has constructed and operates hydroelectric generating plants in the states of Oklahoma, Missouri, Arkansas, and Texas. Costs of multi-purpose Corps projects are allocated to power and non-power purposes. The portion of such project costs allocated to power is included in the combined financial statements. Southwestern, as designated by the Secretary of Energy, purchases, transmits, and markets power.

The SWFPS is subject to the regulations of the Federal Energy Regulatory Commission (FERC). Accounts are maintained in accordance with accounting principles generally accepted in the United States of America as established by Financial Accounting Standards Board (FASB) and Federal Accounting Standards Advisory Board (FASAB), the uniform system of accounts prescribed for electric utilities by the FERC, the accounting practices and standards established by the DOE, and the requirements of specific legislation and executive directives issued by government agencies. The SWFPS' financial statements follow the accounting and reporting guidance contained in Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. Allocation of costs and revenues to accounting periods for ratemaking and regulatory purposes may differ from bases generally applied by nonregulated companies. Such allocations to meet regulatory accounting requirements are considered to be accounting principles generally accepted in the United States of America for regulated utilities provided that there is a demonstrable ability to recover any deferred costs in future rates.

#### (b) Confirmation and Approval of New Rates

Integrated System rate schedules were placed into effect January 1998, and were confirmed and approved by the FERC on a final basis April 28, 1998. In April 1999, February 2000 and again in July 2001, the FERC confirmed and approved on a final basis minor changes to the rate schedules. Those changes became effective January 1999, December 1999, and April 2001, respectively. On July 26, 2001, the Deputy Secretary of Energy approved and placed into effect on an interim basis Rate Order SWPA-45 which extends the existing power rate through September 30, 2002.

The final rate for the Sam Rayburn Dam Project was confirmed and approved on a final basis October 22, 2001, by the FERC. The rate became effective on October 1, 2001, and continues through September 30, 2005. The FERC also confirmed and approved the rate for the Robert Douglas Willis Project effective October 1, 2001 through September 30, 2005.

#### (c) Utility Plant and Depreciation

Plant in service and construction and retirement work in progress are stated at original cost or at appraisal value for property transferred from other government agencies. Cost includes direct labor and materials, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and minor replacements are charged to operation and maintenance expense. Generally, the cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when the property is removed from service. Gains and losses are recognized only on sales of significant identifiable assets.

Depreciation on utility plant is computed on a straight-line basis over the estimated service lives of the various classes of property. Service lives currently range from 5 to 100 years for transmission plant and generating plant components.



#### (d) Unexpended Appropriations

Unexpended appropriations consist of the unexpended balance of funds appropriated by Congress for construction and operation and maintenance purposes and are maintained by the U.S. Treasury. For purposes of the statements of cash flows, unexpended appropriations are considered to be cash.

#### (e) Congressional Appropriations

Congressional appropriations received by the Corps are authorized and allocated to individual projects on a total project basis. These total project allocations are further distributed between power and non-power purposes at the discretion of project management. Power purpose allocations may vary from actual amounts expended during the year. It is the intent of the Corps' project management to distribute congressional appropriations in amounts approximating estimated current year expenses and to adjust the distribution as necessary within the limits of the transfer authority residing at the district level.

#### (f) Purchase Power and Banking Exchange Deferral and Receivable

A separate rate component (adder) recovers the cost of purchased power based upon the average purchased power costs over the past several years. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through rates. Likewise, if the expense is less than the adder, the excess revenue is deferred.

The SWFPS has arrangements with certain customers in which excess power generated by the SWFPS is banked with the customer until needed by the SWFPS and the customer has excess power available. The SWFPS records a receivable for the power banked at the customers' cost of generation. The net revenue or expense associated with banking activity is deferred.

#### (g) Operating Revenues

Operating revenues are recorded on the basis of service rendered. Rates are established under requirements of the Flood Control Act of 1944, related legislation and executive departmental directives, and are to provide sufficient revenues to meet all required payments for system costs, including operation and maintenance expenses less depreciation, interest, and payment to the U.S. Treasury for the Federal investment in utility plant. Rates are intended to provide for recovery of the Federal investment in transmission and generating facilities within the service lives of the assets, not to exceed 50 years from the date placed in service, while operation and maintenance costs and interest on Federal investment are intended to be recovered annually.

As set forth in "Utility Plant and Depreciation" above, assets are being depreciated for financial reporting purposes using the straight-line method over their estimated service lives which currently range from 5 to 100 years for transmission and generating plant components. Accordingly, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of generating facilities, continue beyond the period within which such costs will have been recovered through rates.

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of the recognition of expenses and related revenues, resulting primarily from the difference between the recognition of depreciation and the related recovery of the U.S. Treasury's investment in utility plant. Southwestern and the Corps are Federal entities, thus at any given time the accumulated net revenue (deficit) balance is deemed to represent deferred revenue or expense, respectively.

The practice followed by the SWFPS is in conformity with the accounting practices and standards established by the DOE and the requirements of specific legislation and executive directives issued by government agencies.

#### (h) Interest on Federal Investment

Interest on repayable Federal investment is a cost mandated by the Secretaries of the Departments of Energy and Defense and by the FERC. Southwestern computes interest in accordance with DOE Order RA 6120.2, which provides that interest be computed on the remaining investment after revenues have been applied to recovery of costs during the year, any prior year unpaid costs, and then to Federal investment bearing the highest interest rate (see Note 4).



(i) Allowance for Funds Used During Construction (AFUDC)

The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate making process over the repayment life of the related property through increased revenues resulting from higher recoverable investment. The interest rates used are established by law, administrative order or administrative policy for the fiscal year during which the construction commenced (5.625 percent for fiscal year 2002, and 6.25 percent for fiscal year 2001).

(j) Retirement Benefits

SWFPS employees participate in either the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS), both contributory defined benefit plans. Agency contributions are based on eligible employee compensation and are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). The contribution levels, however, are legislatively mandated and do not reflect the full cost requirements to fund the plans. Other retirement benefits administered by the OPM include the Federal Employees Health Benefits Program and the Federal Employee Group Life Insurance Program.

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government (SFFAS No. 5), requires the Federal employer entity to recognize pension expense and other retirement benefit expense in its financial report equal to the service cost for its employees for the accounting period, less the amount contributed by the employees, if any. In accordance with SFFAS No. 5, Southwestern has recorded \$1,057,042 and \$980,124 of pension and retirement benefits expense, as of September 30, 2002 and 2001, respectively. The Corps has recorded \$1,785,626 and \$1,685,801 of pension and retirement benefits expense as of September 30, 2002 and 2001, respectively. Pension and retirement benefits expense is included as part of benefits expense.

(k) Workers' Compensation

Workers' compensation consists of two elements: actuarial liability associated with workers' compensation cases incurred for which additional claims may still be made in the future (future claims) and a liability for expenses associated with actual claims incurred and paid by the Department of Labor (DOL), the program administrator, to whom SWFPS must reimburse. In conjunction with the adoption of SFFAS No. 4, Management Cost Accounting Concepts and Standards for the Federal Government, and SFFAS No. 5, the Department of Labor (DOL), the DOE, and the DOD determined SWFPS's actuarial liability associated with workers' compensation cases. The actuarial liability for future claims was determined using historical benefit payment patterns and U.S. Treasury discount rates.

The recovery of these future claims will be deferred for purposes of the rate-making process until such time the future claims are actually submitted and paid by the DOL. Therefore, the recognition of the expense associated with this actuarially determined liability has been recorded as deferred worker's compensation in the combined power system statements of assets, Federal investment, and liabilities in accordance with SFAS 71 to reflect the effects of the rate-making process. SWFPS's cumulative unpaid expenses associated with actual claims incurred are \$10,996,126 and \$9,493,057 as of September 30, 2002 and 2001, respectively.

(l) Income Taxes

The SWFPS' income and facilities are exempt from taxation.



## (2) Utility Plant

Plant in service and construction and retirement work in progress consist principally of generating and transmission facilities as follows:

	2002	2001
Generating facilities	\$1,033,180,708	1,032,056,025
Transmission facilities	<u>236,443,240</u>	<u>225,654,234</u>
	<u>\$1,269,623,948</u>	<u>1,257,710,259</u>

## (3) Tentative Cost Allocations

Allocation of utility plant costs and operation and maintenance expense between power and non-power purposes for the Harry S. Truman Project is presently based on a tentative allocation. At September 30, 2002, total costs for this project were \$629,631,586, of which \$163,359,632 were tentatively allocated to power and subject to adjustment. Since being placed in service, this project's operations have been restricted because of limited generator usage and the prohibition to use the project's pump back capabilities. The restrictions have prevented the project from producing power to its design capacity. A final determination of when, if ever, the project can reach full generating capacity has not yet been made. If the restriction on generating capacity is not removed, some additional change in allocation of cost may be required. If a change in the current allocation is required, the cumulative effect will be determined and reflected as an adjustment to the financial statements at that time.

During the current year, the Corps of Engineers redetermined the Cannon project costs based on the final cost allocation, which was approved in August 1998. The cumulative effect of the new allocation rates were reflected as a reduction to the project's current year financials as follows:

Plant in service	\$24,842,040
Accumulated depreciation	3,695,980
Interest on Federal investment	16,268,001
Operation and maintenance expense	4,321,890

## (4) Investment of U.S. Government

Construction and operation of the SWFPS transmission system and the Corps' generating plants and operations are financed through Congressional appropriations, except for the Robert Douglas Willis project which had its construction financed by other non-Federal parties. The U.S. Government's investment in each generating project and each year's investment in the transmission system is to be repaid to the U.S. Treasury within the service lives of the assets, not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis.

Annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid through fiscal year 2002. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Federal investment. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by repayment of the highest interest-bearing investment first. Interest rates applied to the unamortized initial investment of the U.S. Government in the Corps' hydroelectric plants range from 2.5 percent to 6.25 percent for unpaid facilities in service at the beginning of the year and 5.625 percent for facilities placed in service during 2002. The rates have been set either by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.



#### (5) Leases

Southwestern is obligated under various noncancelable operating leases, primarily for office space, that expire over the next five years. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2002 are:

Year ending September 30,	
2003	\$558,000
2004	576,000
2005	595,000
2006	613,000
2007	<u>417,000</u>
Total future minimum lease payments	<u>\$2,759,000</u>

Rent expense for operating leases during the years ended September 30, 2002 and 2001 was approximately \$527,000 and \$442,000, respectively.

#### (6) Commitments and Contingencies

Based on the 2002 Integrated System Power Repayment Study, the projected increase in capital investment in 2003 is \$12,016,332, which includes \$8,990,632 for transmission facilities and \$3,025,700 for generating facilities. The five-year investment increase projected in the 2002 Integrated System Power Repayment Study for 2003 through 2007 is estimated to cost \$123,159,128.

The SWFPS is a party to certain claims and legal actions arising in the ordinary course of business. In addition, the Corps has begun studies for the purpose of determining whether possible environmental contamination exists at various dam locations. The cost of remediation, if any, at these sites is unknown. In management's opinion, these actions will not have a material adverse effect on the financial condition or results of operations of the SWFPS.



# SOUTHWESTERN FEDERAL POWER SYSTEM

## Combining Schedules of Assets, Federal Investment, and Liabilities

September 30, 2002

Assets	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Utility plant:			
Plant in service	\$ 207,490,106	968,854,452	1,176,344,558
Accumulated depreciation	(77,057,651)	(355,621,689)	(432,679,340)
Construction and retirement work in progress	28,953,134	64,326,256	93,279,390
Net utility plant	<u>159,385,589</u>	<u>677,559,019</u>	<u>836,944,608</u>
Current assets:			
Unexpended appropriations	15,695,855	21,488,565	37,184,420
Accounts receivable	11,666,291	89,849	11,756,140
Materials and supplies, at average cost	4,516,383	1,865,784	6,382,167
	<u>31,878,529</u>	<u>23,444,198</u>	<u>55,322,727</u>
Purchase power and banking exchange receivables	-	-	-
Deferred workers' compensation	3,180,784	7,815,342	10,996,126
Other assets	2,344,400	53,947	2,398,347
Total assets	<u>\$ 196,789,302</u>	<u>708,872,506</u>	<u>905,661,808</u>
<b>Federal Investment and Liabilities</b>			
Federal investment:			
Congressional appropriations	\$ 784,719,968	1,720,832,086	2,505,552,054
Interest on Federal investment	49,995,675	717,706,488	767,702,163
Transfers from other Federal agencies	979,205	37,624,434	38,603,639
Gross Federal investments	835,694,848	2,476,163,008	3,311,857,856
Funds returned to U.S. Treasury	<u>(759,215,980)</u>	<u>(1,777,310,511)</u>	<u>(2,536,526,491)</u>
Net investment of U.S. Government	76,478,868	698,852,497	775,331,365
Accumulated net revenues (deficit)	106,996,660	(2,032,112)	104,964,548
Total Federal investment	<u>183,475,528</u>	<u>696,820,385</u>	<u>880,295,913</u>
Current liabilities - accounts payable and accrued liabilities	7,761,009	3,981,767	11,742,776
Accrued workers' compensation	3,091,459	8,070,354	11,161,813
Purchase power and banking exchange deferral	453,550	-	453,550
Hydropower revenue deferral	433,335	-	433,335
Advances for construction	1,574,421	-	1,574,421
Commitments and contingencies	-	-	-
Total liabilities	<u>13,313,774</u>	<u>12,052,121</u>	<u>25,365,895</u>
Total Federal investment and liabilities	<u>\$ 196,789,302</u>	<u>708,872,506</u>	<u>905,661,808</u>

See accompanying independent auditors' report.



# SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedules of Assets, Federal Investment, and Liabilities

September 30, 2001

Assets	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Utility plant:			
Plant in service	\$ 201,755,454	988,865,755	1,190,621,209
Accumulated depreciation	(69,641,793)	(346,562,160)	(416,203,953)
Construction and retirement work in progress	23,898,780	43,190,270	67,089,050
Net utility plant	<u>156,012,441</u>	<u>685,493,865</u>	<u>841,506,306</u>
Current assets:			
Unexpended appropriations	11,555,611	20,958,798	32,514,409
Accounts receivable	12,987,395	98,197	13,085,592
Materials and supplies, at average cost	4,564,822	1,871,214	6,436,036
	<u>29,107,828</u>	<u>22,928,209</u>	<u>52,036,037</u>
Purchase power and banking exchange receivables	4,144,119	-	4,144,119
Deferred workers' compensation	3,261,462	6,231,595	9,493,057
Other assets	1,423,951	66,782	1,490,733
Total assets	<u>\$ 193,949,801</u>	<u>714,720,451</u>	<u>908,670,252</u>
<b>Federal Investment and Liabilities</b>			
Federal investment:			
Congressional appropriations	\$ 755,249,448	1,692,105,675	2,447,355,123
Interest on Federal investment	47,248,131	714,445,216	761,693,347
Transfers from other Federal agencies	7,122,963	28,829,725	35,952,688
Gross Federal investments	809,620,542	2,435,380,616	3,245,001,158
Funds returned to U.S. Treasury	(738,782,417)	(1,705,035,893)	(2,443,818,310)
Net investment of U.S. Government	70,838,125	730,344,723	801,182,848
Accumulated net revenues (deficit)	111,332,641	(28,433,269)	82,899,372
Total Federal investment	<u>182,170,766</u>	<u>701,911,454</u>	<u>884,082,220</u>
Current liabilities - accounts payable and accrued liabilities	8,193,025	6,409,872	14,602,897
Accrued workers' compensation	3,173,310	6,399,125	9,572,435
Purchase power and banking exchange deferral	-	-	-
Hydropower revenue deferral	412,700	-	412,700
Commitments and contingencies	-	-	-
Total liabilities	<u>11,779,035</u>	<u>12,808,997</u>	<u>24,588,032</u>
Total Federal investment and liabilities	<u>\$ 193,949,801</u>	<u>714,720,451</u>	<u>908,670,252</u>

See accompanying independent auditors' report.



# SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedules of Revenues, Expenses,  
and Accumulated Net Revenues

Year ended September 30, 2002

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power:			
Cooperatives	\$ 63,449,622	-	63,449,622
Municipalities	28,295,266	-	28,295,266
Federal and state agencies	2,062,404	-	2,062,404
Banking exchange	2,893,492	-	2,893,492
Transmission service charges for others	12,464,398	-	12,464,398
Other operating income	331,177	673,189	1,004,366
	<u>109,496,359</u>	<u>673,189</u>	<u>110,169,548</u>
Total operating revenues before deferrals	109,496,359	673,189	110,169,548
Net purchase power credit and banking exchange	(5,683,081)	-	(5,683,081)
Revenue distributed to Corps	(70,200,747)	70,200,747	-
	<u>33,612,531</u>	<u>70,873,936</u>	<u>104,486,467</u>
Total operating revenues	33,612,531	70,873,936	104,486,467
Operating expenses:			
Operation and maintenance	17,254,127	32,608,344	49,862,471
Purchase power and banking exchange	4,515,350	-	4,515,350
Depreciation	8,598,200	9,686,934	18,285,134
Transmission service charges by others	3,103,466	-	3,103,466
Benefit expense	3,410,498	1,993,977	5,404,475
	<u>36,881,641</u>	<u>44,289,255</u>	<u>81,170,896</u>
Total operating expenses excluding interest	36,881,641	44,289,255	81,170,896
Net operating revenues (deficit)	(3,269,110)	26,584,681	23,315,571
Interest on Federal investment	2,646,585	3,261,272	5,907,857
Allowance for funds used during construction	(1,579,714)	(3,077,748)	(4,657,462)
	<u>1,066,871</u>	<u>183,524</u>	<u>1,250,395</u>
Net interest expense	1,066,871	183,524	1,250,395
Net revenues (deficit)	(4,335,981)	26,401,157	22,065,176
Accumulated net revenues (deficit):			
Balance, beginning of year	111,332,641	(28,433,269)	82,899,372
	<u>111,332,641</u>	<u>(28,433,269)</u>	<u>82,899,372</u>
Balance, end of year	\$ 106,996,660	(2,032,112)	104,964,548
	<u><u>106,996,660</u></u>	<u><u>(2,032,112)</u></u>	<u><u>104,964,548</u></u>

See accompanying independent auditors' report.



# SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Schedules of Revenues, Expenses,  
and Accumulated Net Revenues

Year ended September 30, 2001

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power:			
Cooperatives	\$ 59,952,447	-	59,952,447
Municipalities	27,213,482	-	27,213,482
Federal and state agencies	1,935,890	-	1,935,890
Banking exchange	4,725,731	-	4,725,731
Transmission service charges for others	11,146,615	-	11,146,615
Other operating income	95,816	928,446	1,024,262
	<hr/>	<hr/>	<hr/>
Total operating revenues before deferrals	105,069,981	928,446	105,998,427
Net purchase power credit and banking exchange	4,372,210	-	4,372,210
Revenue distributed to Corps	(70,904,247)	70,904,247	-
	<hr/>	<hr/>	<hr/>
Total operating revenues	38,537,944	71,832,693	110,370,637
	<hr/>	<hr/>	<hr/>
Operating expenses:			
Operation and maintenance	13,971,006	33,726,970	47,697,976
Purchase power and banking exchange	14,260,986	-	14,260,986
Depreciation	8,319,050	15,637,983	23,957,033
Transmission service charges by others	2,392,574	-	2,392,574
Benefit expense	2,954,789	1,853,331	4,808,120
	<hr/>	<hr/>	<hr/>
Total operating expenses excluding interest	41,898,405	51,218,284	93,116,689
	<hr/>	<hr/>	<hr/>
Net operating revenues (deficit)	(3,360,461)	20,614,409	17,253,948
	<hr/>	<hr/>	<hr/>
Interest on Federal investment	2,060,683	19,552,179	21,612,862
Allowance for funds used during construction	(1,371,740)	(1,468,292)	(2,840,032)
	<hr/>	<hr/>	<hr/>
Net interest expense	688,943	18,083,887	18,772,830
	<hr/>	<hr/>	<hr/>
Net revenues (deficit)	(4,049,404)	2,530,522	(1,518,882)
	<hr/>	<hr/>	<hr/>
Accumulated net revenues (deficit):			
Balance, beginning of year	115,382,045	(30,963,791)	84,418,254
	<hr/>	<hr/>	<hr/>
Balance, end of year	\$ 111,332,641	(28,433,269)	82,899,372
	<hr/>	<hr/>	<hr/>

See accompanying independent auditors' report.



# SOUTHWESTERN FEDERAL POWER SYSTEM

## Combining Schedules of Cash Flows

Year ended September 30, 2002

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues (deficit)	\$ (4,335,981)	26,401,157	22,065,176
Adjustments to reconcile net revenues (deficit) to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	70,200,747	(70,200,747)	-
Final allocation of Corps project costs	-	(24,285,871)	(24,285,871)
Depreciation	8,598,200	13,382,914	21,981,114
Benefit expense paid by other Federal agencies	1,057,042	1,738,965	2,796,007
Interest on Federal investment	2,646,585	19,529,273	22,175,858
Allowance for funds used during construction	(1,579,714)	(3,077,748)	(4,657,462)
(Increase) decrease in assets:			
Accounts receivable	1,321,104	8,348	1,329,452
Materials and supplies	48,439	5,430	53,869
Banking exchange receivable	4,144,119	-	4,144,119
Deferred workers' compensation	80,678	(1,583,747)	(1,503,069)
Other assets	(920,449)	12,835	(907,614)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(432,016)	(2,428,105)	(2,860,121)
Accrued workers' compensation	(81,851)	1,671,229	1,589,378
Purchase power and banking exchange deferral	554,508	-	554,508
Hydropower revenue deferral	20,635	-	20,635
Advances in construction	1,574,421	-	1,574,421
Cash provided by (used in) operating activities	<u>82,896,467</u>	<u>(38,826,067)</u>	<u>44,070,400</u>
Cash flows from investing activities -			
Additions to utility plant	<u>(10,391,633)</u>	<u>(23,661,436)</u>	<u>(34,053,069)</u>
Cash flows from capital financing activities:			
Congressional appropriations	29,470,520	57,890,341	87,360,861
Funds returned to U.S. Treasury	(90,634,310)	(2,073,871)	(92,708,181)
Transfer to Corps	<u>(7,200,800)</u>	<u>7,200,800</u>	<u>-</u>
Cash provided by (used in) capital financing activities	<u>(68,364,590)</u>	<u>63,017,270</u>	<u>(5,347,320)</u>
Net increase in cash	4,140,244	529,767	4,670,011
Cash at beginning of year	<u>11,555,611</u>	<u>20,958,798</u>	<u>32,514,409</u>
Cash at end of year	<u>\$ 15,695,855</u>	<u>21,488,565</u>	<u>37,184,420</u>
Noncash transactions -			
Transfer of plant in service to other Federal agencies	<u>\$ -</u>	<u>(145,056)</u>	<u>(145,056)</u>

See accompanying independent auditors' report.



# SOUTHWESTERN FEDERAL POWER SYSTEM

## Combining Schedules of Cash Flows

Year ended September 30, 2001

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues (deficit)	\$ (4,049,404)	2,530,522	(1,518,882)
Adjustments to reconcile net revenues (deficit) to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	70,904,247	(70,904,247)	-
Depreciation	8,319,050	15,637,983	23,957,033
Benefit expense paid by other Federal agencies	980,125	1,685,800	2,665,925
Interest on Federal investment	2,060,682	19,552,180	21,612,862
Allowance for funds used during construction	(1,371,740)	(1,468,292)	(2,840,032)
(Increase) decrease in assets:			
Accounts receivable	(587,737)	180,929	(406,808)
Materials and supplies	725,348	(355,085)	370,263
Banking exchange receivable	(1,024,711)	-	(1,024,711)
Deferred workers' compensation	116,072	6,170,908	6,286,980
Other assets	(949,159)	(36,856)	(986,015)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	2,297,842	1,871,634	4,169,476
Accrued workers' compensation	(178,635)	(6,333,487)	(6,512,122)
Purchase power and banking exchange deferral	(1,735,814)	-	(1,735,814)
Hydropower revenue deferral	19,653	-	19,653
Cash provided by (used in) operating activities	<u>75,525,819</u>	<u>(31,468,011)</u>	<u>44,057,808</u>
Cash flows from investing activities -			
Additions to utility plant	<u>(13,056,700)</u>	<u>(22,452,215)</u>	<u>(35,508,915)</u>
Cash flows from capital financing activities:			
Congressional appropriations	28,326,830	61,302,550	89,629,380
Funds returned to U.S. Treasury	(83,167,672)	(1,457,703)	(84,625,375)
Transfer to Corps	<u>(7,883,070)</u>	<u>7,883,070</u>	<u>-</u>
Cash provided by (used in) capital financing activities	<u>(62,723,912)</u>	<u>67,727,917</u>	<u>5,004,005</u>
Net increase in cash	(254,793)	13,807,691	13,552,898
Cash at beginning of year	<u>11,810,404</u>	<u>7,151,107</u>	<u>18,961,511</u>
Cash at end of year	<u>\$ 11,555,611</u>	<u>20,958,798</u>	<u>32,514,409</u>
Noncash transactions -			
Transfer of plant in service from other Federal agencies	<u>\$ -</u>	<u>169,511</u>	<u>169,511</u>

See accompanying independent auditors' report.







<http://www.swpa.gov>

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